

Before the
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Rate Adjustment Due to Extraordinary or
Exceptional Circumstances

Docket No. R2013-11

PUBLIC REPRESENTATIVE COMMENTS IN RESPONSE TO
THE NOTICE OF INQUIRY CONCERNING THE FOREVER STAMP
ADJUSTMENT TO THE EXIGENT SURCHARGE CAP

(November 19, 2014)

On November 5, 2014, the Commission issued a Notice of Inquiry (NOI) seeking comments on proposed methodologies to adjust exigent surcharge revenues due to Forever stamps purchases and usage.¹

The Public Representative previously commented that the Revenue Collection Report submitted by the Postal Service includes a \$119.39 million adjustment to reflect the effect of Postage in the Hands of the Public (PIHOP).² The Postal Service stated that the adjustment was necessary to account for lost revenue due to Forever stamps purchased at a lower price prior to the effective date of the exigent surcharge, which are used while the exigent surcharge is in effect. However, the Postal Service stated it is unable to estimate how many Forever stamps purchased at a higher price while the exigent surcharge is in effect, will be used after the surcharge is no longer in effect.

¹ Notice of Inquiry on Proposed Methodology to Calculate Adjustment to Surcharge Cap for Forever Stamps (PIHOP Adjustment), November 5, 2014 (NOI).

² Response of the United States Postal Service to Order No. 2075, May 15, 2014. See Public Representative Comments Addressing Notice and Order on the Postal Service's Exigent Surcharge Removal Plan, July 28, 2014, at 14-15.

The Public Representative argued that the Postal Service cannot be allowed to benefit from estimates made at the front end, while alleging it is unable to make estimates at the back end where it might not be beneficial to the Postal Service. The Public Representative concluded that because of the inherent speculation in mailer Forever stamp usage, inability to develop an estimate, and potential detriment to mailers by accepting the Postal Service's approach, the Forever stamp revenue adjustment should be disallowed.

The Commission proposed two options to address the PIHOP adjustment concern of the Public Representative and other commenters. NOI at 3-4. The Commission first proposed to calculate the surcharge collected from Forever stamps by quarter by multiplying the quarterly volume of Forever stamps sold while the surcharge was in effect (calculated by total quarterly Forever stamp revenue divided by 49 cents) by 2 cents and subtracting the quarterly volume of Forever stamps from the quarterly billing determinants volumes used to calculate the amount of surcharge collected. Alternatively, the Commission proposed to use the surcharge revenue collected from Forever stamp sales as a substitute for the calculation of surcharge collected from stamped First-Class single-piece letters. The Commission indicated that neither option is ideal.

The portion of stamps purchased by the public but not yet used is recorded as Deferred Revenue – prepaid postage, a liability on the Postal Service Balance Sheet. The Postal Service argues that the public would be driven to purchase large quantities of stamps at the pre-exigent surcharge price to use during the exigent surcharge. In this scenario, the Deferred Revenue-prepaid postage balance would be expected to decrease markedly as stamps purchased prior to the exigent surcharge period are used during the surcharge period. The balance reported as Deferred Revenue-prepaid postage on December 31, 2013 (the end of the first quarter FY 2014 immediately prior

to the period the surcharge) is \$3.1 billion.³ The balance at September 30, 2014, the end of the fourth quarter, after three quarters within the surcharge period remains \$3.1 billion.⁴ The significant decrease in the PIHOP liability expected by the Postal Service's assumptions in the usage of prior stamp purchases has not occurred.

The Public Representative believes that consumer behavior may be unpredictable and estimation of usage in the event of a price reduction has not been explored. However, the recognition in revenue of all stamps purchased prior to the exigent surcharge went into effect with an adjustment for breakage is not realistic as reflected by no material change in PIHOP liability at the start of the exigent surcharge versus three fiscal quarters into the period of the exigent surcharge. Unless the Commission determines that there is an accurate and reliable methodology to develop a PIHOP adjustment, the Public Representative continues to argue that the Forever stamp revenue adjustment should be disallowed.

Respectfully submitted,

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³ USPS Quarter 1, 2014, Form 10-Q, February 7, 2014, at 4.

⁴ USPS Form 8-K, November 14, 2014, at 7.